

The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

NIC 00422-85
25 January 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence


FROM: David B. Low
National Intelligence Officer at Large and
Acting National Intelligence Officer for Economics

SUBJECT: US-USSR Trade (U)

1. At the 24 January 1985 meeting of the SIG-IEP chaired by Secretary Regan, UnderSecretary of Commerce Lionel Olmer summarized the written report on the results of the 4th session of the US-USSR Working Group of Experts held in Moscow on January 8-9, 1985 (report attached). (C)

2. As a result of the meeting in Moscow, the US delegation has concluded that the conditions necessary to assure a successful US-USSR Joint Commercial Commission Meeting have been met and recommended to the SIG-IEP that the US indicate to the Soviet Union a willingness to hold such a session as soon as practical. (C)

3. The SIG-IEP approved the recommendation, authorizing the Commerce Department to proceed with a view toward having a JCC Meeting during the period of April-June 1985. This was approved by Secretary Shultz, Secretary Baldrige and Assistant Secretary Perle, all of whom were present at the meeting. The latter cautioned that the US must be careful to distinguish such discussions on non-strategic trade expansion from the issue of strategic trade. He stated that he was concerned that the US not send confusing signals to allies and promote any perception which might undercut the image of a very strong US resolve to enforce restrictions on strategic items of trade. Secretaries Shultz, Regan, and Baldrige all concurred, with Secretary Shultz noting that the message will have to be outlined in public repeatedly. Secretary Shultz also requested that the timing of JCC consultations be coordinated with him. (S NF)



David B. Low

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SUBJECT: Memorandum for the Record on US-USSR Trade

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On the Results of the
Fourth Session of the U.S.-U.S.S.R. Working Group of Experts
Moscow, January 8-9, 1985

BACKGROUND

(U) On June 27, 1984, the President announced that as part of the effort to engage the Soviets in a more constructive dialogue, the Administration had proposed that preparations begin for a meeting of the Cabinet-level U.S.-U.S.S.R. Joint Commercial Commission (JCC). The Soviets were told by Secretary Baldrige that we would agree to such a meeting if sufficient common ground existed for trade expansion and if concrete steps would result to facilitate an increase in peaceful trade. The Soviets agreed to a meeting of the Working Group of Experts to explore these questions.

(S) On December 18, 1984, the SIG-IEP discussed the objectives for the Working Group Meeting, and on January 4, 1985, in NSDD 155 the President enumerated the U.S. objectives as being:

- o To review the status of overall U.S.-Soviet economic and commercial relations.
- o To discuss present obstacles to our trade relations in an effort to identify areas in which mutually beneficial non-strategic trade could be expanded in conformity with present export control policies.
- o To help determine if there are sufficient grounds for a meeting of the U.S.-U.S.S.R. Joint Commercial Commission.

(S) The President also approved positions to be taken on issues the Soviets were expected to raise, approved using the meetings to express serious human rights concerns, and stated that pending further policy clarification we should not agree to an active program of trade expansion in oil and gas equipment.

SUMMARY OF RESULTS

(C) The Working Group, chaired on the U.S. side by Commerce Under Secretary Olmer and on the Soviet side by Deputy Foreign Trade Minister Sushkov, agreed that the prospects for trade expansion within present U.S. and Soviet policies were relatively modest, but of sufficient interest to act upon. Both sides agreed the trade relationship could not be viewed apart from the overall bilateral relationship.

(C) The Soviets indicated strong interest in an expansion of trade with the United States, however limited that might have to be. The Soviet interest is particularly striking in that the Soviets remained positive and non-polemical despite the blunt U.S. statements on the need for human rights improvements as necessary for any major gains in the relationship.

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(C) The Working Group identified areas where both sides were interested in expanding trade. All of these areas are in full conformity with present U.S. export control policies and other laws and policies governing bilateral trade. The Working Group also identified concrete steps which would facilitate growth in peaceful trade, and which could be announced at a JCC meeting.

(C) Both sides expressed satisfaction with the tone and substance of the meetings. Both acknowledged that the final decisions on holding a meeting of the JCC would be made in the respective capitals after reviewing the results of the Working Group meeting and considering other relevant factors. Both also agreed to recommend that if a JCC meeting were held its agenda should be: (1) Status and prospects of bilateral trade; (2) Results of the Working Group of Experts; (3) Opportunities for expansion of trade, including projects; (4) Business facilitation.

(C) The U.S. delegation believes that the conditions necessary to assure a successful JCC meeting have been met, and recommends to the SIG-IEP that the United States indicate to the Soviet Union a willingness to hold such a meeting as soon as practical. // ←

U.S. VIEWS

(C) The U.S. delegation made it plain at the outset of the meetings that our security and foreign policy interests remain paramount and will continue to set limits to acceptable trade. The delegation said the U.S. wanted to find areas where trade could be expanded within the present framework of export control policies and other laws and policies governing the bilateral relationship. We were not interested in changing the framework.

(C) The U.S. delegation described three areas: (1) those with major constraints that had little or no prospect of being overcome; (2) those with constraints that could be resolved or reduced considerably; and (3) areas where there were no constraints. The U.S. view was to recognize the obstacles, but to take a pragmatic approach of trying to find mutually agreeable steps in the latter two areas.

(U) The U.S. delegation stressed that the trade relationship could not change significantly independently of other aspects of the U.S.-Soviet relationship. In particular, major improvements in the trading relationship would not be possible in the absence of major progress on human rights. Jackson-Vanik would not be changed.

(U) We noted the Soviet view that the U.S. had created the barriers to trade and had to bear unilateral responsibility to improve the relationship. The U.S. admonished the Soviets that this view was unrealistic, and that action to move trade forward would have to come from both sides. The U.S. delegation pointed to Soviet actions which have removed U.S. companies from bid lists, have prevented U.S. companies from staging seminars and trade promotions, and have branded U.S. companies as unreliable suppliers.

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(U) It was the view of the U.S. delegation that attractive possibilities for a significant increase in trade existed within present constraints, without any change in framework. The Soviets were urged to act on some long-standing contract negotiations and to take a pragmatic approach to identifying additional project possibilities.

THE SOVIET VIEW

(C) The Soviet delegation believed that a very large increase in trade could take place if the U.S. would grant MFN and credits, limit its export controls, and guarantee contract sanctity. Otherwise, only relatively modest gains would be possible. The Soviets expressed disappointment with the firm U.S. position on Jackson-Vanik and human rights, saying these concerns should be separate from trade. (In private conversations, some Soviet leaders showed more flexibility. Gosbank Chairman Alkhimov, in particular, said that if good relations were restored with the United States, 50,000 Jewish emigres annually would be "no problem.")

(C) The Soviets accepted the U.S. view that the focus should be on areas where there were few or no problems, and also agreed that both sides would have to take trade facilitating steps if a JCC meeting were to be held. The Soviets said they accepted the right of the U.S. to control its exports, but it was critical for any expansion in the relationship to let them know more precisely what we were willing to sell them. They suggested that this be discussed on a project-by-project basis.

AREAS FOR POTENTIAL PROJECTS

(C) The Working Group agreed that the basis for discussing potential projects should be the list of 15 sectoral areas suggested by the U.S.-U.S.S.R. Trade and Economic Council (USTEC). The fifteen areas are: food processing, fishing, service industries, energy, pulp and paper, pollution control, textiles, land reclamation, materials handling, biotechnology, transportation, petrochemicals, chemicals, consumer goods, and medical equipment.

(C) In addressing the energy sector area on the USTEC list, the U.S. delegation reiterated existing policy on export of oil and gas equipment and technology to the Soviet Union. Oil and gas exploration and production equipment, along with a few items of transmission equipment, require a validated export license and most of this equipment has a presumption of approval. Virtually no refining equipment requires a validated license. Oil and gas technology for exploration and production requires a validated license, and there is a presumption of denial. The Soviets asserted that their energy development plans would proceed with or without the United States. Sushkov stated that if the U.S. Government does not endorse the proposed USTEC energy, pollution control, and recycling exhibit, he will recommend that plans be dropped for the exhibit at the March meeting of the USTEC executive committee.

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(C) On the other 14 areas, the U.S. delegation indicated that in most of them there would be few licensing problems, and projects in many areas could be endorsed. The Working Group agreed that each side should narrow the list according to its interests, and that discussion of specific project possibilities should be undertaken where there was overlapping interest.

SPECIFIC STEPS

(C) Each side indicated a number of specific actions it wanted the other to take in the context of a JCC meeting, either seeking to resolve the issue prior to the JCC or to discuss it at the JCC.

U.S. List --

1. A joint statement of support for mutually beneficial trade. The Soviets agreed, but want the U.S. to make the first draft.
2. Put all interested U.S. companies back on bid invitation lists. The Soviets at first denied they had any policy against U.S. companies, then admitted that de facto there was such a practice and agreed to take visible steps to end the practice. (This is the major barrier to non-strategic trade expansion, in the view of U.S. companies.)
3. Provide Trade Ministry guidance to all Soviet Foreign Trade Organizations to treat U.S. companies equally with other Western suppliers. The Soviets agreed to do this in a visible manner.
4. Sign some contracts that have been under negotiation with American companies for a long time. The Soviets agreed in principle, but refused to specify which contracts. / Now me
5. Develop specific new project proposals in mutually-agreeable areas. The Soviets agreed.
6. Allow resumption of seminars and other promotions at the U.S. Commercial Office in Moscow. The Soviets agreed, and also offered to pay half the cost of setting up an entity to promote added business by small U.S. companies.

Soviet List --

1. Terminate furskins embargo. The U.S. delegation expressed willingness to discuss options with Congress if the Soviets act to improve U.S. business prospects in the U.S.S.R.
2. Restore Aeroflot landing rights. U.S. stressed the need to reach an understanding on North Pacific air safety measures so that discussions on other aspects of our civil aviation relationship might be resumed between our experts. U.S. also noted that eventual agreement would have to contain full balance of economic concessions for U.S. carriers.

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3. Conclude new tax protocol. U.S. indicated readiness to move forward on unsigned 1981 protocol, but noted changes may have to be made.

4. Eliminate nickel prohibition. U.S. noted recent Treasury offer as good basis for resolution, and invited Soviets to respond.

5. Antidumping, especially action on potash. U.S. agreed to discuss, but noted limited administrative flexibility.

6. Supplier Reliability. U.S. agreed to discuss the matter if a JCC were held.

7. MFN and Credits. U.S. agreed to put it on agenda, stressing that there would be no change in U.S. policy. Soviets noted firm U.S. position, but want it on JCC agenda anyway.

8. Renew maritime negotiations. U.S. agreed to discuss maritime matters, but in the traditional maritime framework and noting that U.S. maritime industry interests would have to be addressed.

(U) This report has been reviewed and cleared by all members of the U.S. delegation, which included representatives of the Departments of State, Treasury and Commerce, the U.S. Trade Representative and our Embassy in Moscow.

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